

CSR funding legal requirements and recent trends in corporate spendings



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Companies qualifying for CSR

A company satisfying any of the following criteria during the immediately preceding financial year is required to comply with CSR provisions specified under section 135(1) of the Companies Act, 2013 read with the Companies (CSR Policy) Rules, 2014 made thereunder: (i) net worth of rupees five hundred crore or more, or (ii) turnover of rupees one thousand crore or more, or (iii) net profit of rupees five crore or more. The CSR committee (in case amount required to be spent exceeds fifty lakh rupees) or the board of directors (if the amount to be spent is less than fifty lakh rupees) will be responsible for formulating the CSR policy and recommending the amount of expenditure on CSR activities.

Minimum spending requirements

The CSR eligible companies are required to spend minimum 2% of the net profits of preceding 3 financial years on CSR activities. Profit before tax is required to be used for this purpose and capital payments and receipts are also required to be excluded. The CSR expenditure by companies is not allowed as expenses as such expenses are not incurred in normal course of business.

Responsibilities of Board, CSR committee and Government

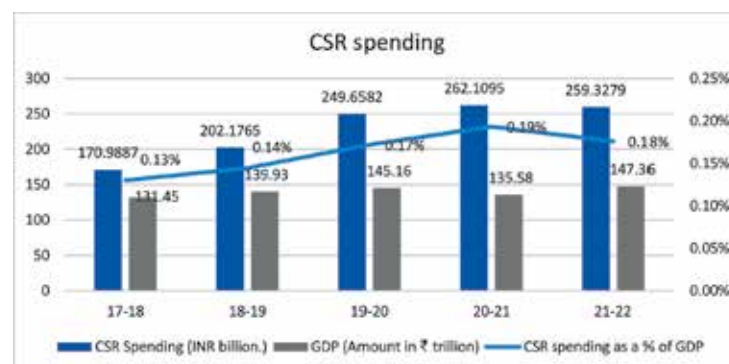
The CSR committee (in case amount required to be spent exceeds fifty lakh rupees) or the board of directors (if the amount to be spent is less than fifty lakh rupees) will be responsible for formulating the CSR policy and recommending the amount of expenditure on CSR activities. The Board of Directors of the company are responsible, in ensuring that the activities included in CSR policy are undertaken by the company and also in ensuring that the company spends at least 2% of the average net profits made during the 3 immediately preceding financial years on CSR. CSR is a Board driven process and inability to meet the requirements needs to be reported by the Board along with reasons. CSR eligible companies are required to file the details of CSR activities annually with MCA (Ministry of Corporate Affairs) 21 registry. CSR compliance is monitored by the government through the MCA 21 disclosures made by companies. If a company is in default in complying with the provisions of spending the amount as mandated or transferring the unspent amount to the relevant fund as prescribed, the company shall be liable to a penalty of twice the amount required to be transferred by the company to the Fund specified in Schedule VII or the Unspent

Corporate Social Responsibility Account, as the case may be, or one crore rupees, whichever is less, and every officer of the company who is in default shall be liable to a penalty of one-tenth of the amount required to be transferred by the company to such Fund specified in Schedule VII, or the Unspent Corporate Social Responsibility Account, as the case may be, or two lakh rupees, whichever is less.

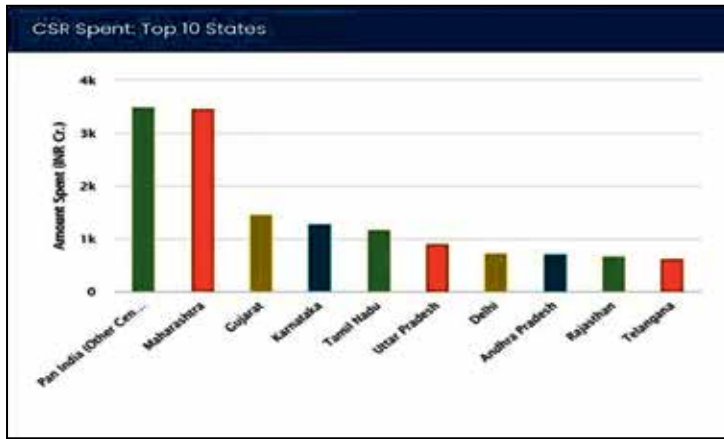
With this brief we will now try to zoom into the data on trends in corporate spendings on CSR and will try to study a relationship between the overall GDP of India.

FY	CSR Spending (INR billion.)	GDP (Amount in ₹ trillion)	CSR spending as a % of GDP
17-18	170.99	131.45	0.13%
18-19	202.18	139.93	0.14%
19-20	249.66	145.16	0.17%
20-21	262.11	135.58	0.19%
21-22	259.33	147.36	0.18%

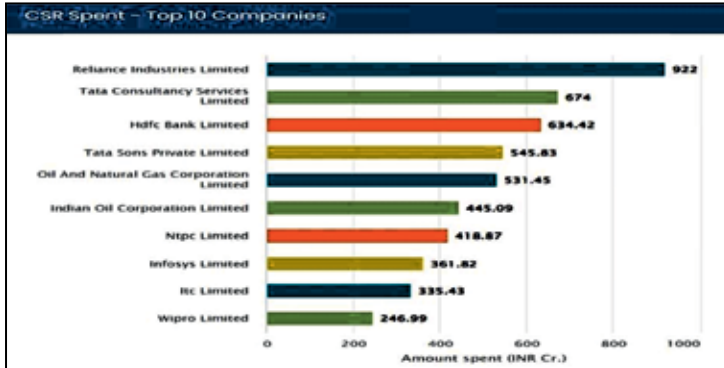
If we analyse the data, we can see that although between 20-21 to 21-22 the GDP increased, the CSR spending as percentage of GDP dropped marginally from 0.19% to 0.18%. Some of this drop may be due to the fact that some of the corporates would have spent more than the required 2% mandatory limit during the COVID times and they are allowed to set off such an excess during succeeding three financial years.



CSR spending by states: Out of the 259.32 billion Rs spent on CSR during 2021-22, close to 50 billion Rs are spent on projects in Maharashtra and Gujarat alone which accounts for close to 20% of the overall CSR spending. Jammu and Kashmir manages to get only 0.35 billion Mizoram being the lowest with Rs. 0.97 crore.



CSR spending by companies - PSU companies are contributing 17% to the overall CSR spendings whereas 83% being contributed by non-PSU companies. Below chart shows the top 10 companies (PSU as well as non-PSU). We will try to analyse the projects and development sectors targeted by some of the top companies as we drill down further into company level data.



1) Reliance Industries – If we look at the overall CSR spending by RIL we can see that 375 crores out of overall 922 crores is spent on promoting Institution of Eminence - Jio Institute which is approximately 41 % of the overall CSR spendings by the company.

2) ONGC - Out of Rs 531 crores spent by ONGC, for spendings worth Rs 170 crores, the development sector details, state and Union territory details are not specified and are categorised in other categories.

3) Infosys – Overall the company has spread out its CSR outlays evenly across 38 CSR projects with no specific concentration/exception being visible like in case of 1st two companies. Even geographically the projects are evenly spread out thereby proving help to multiple states.

The data suggests that 5888 companies out of total 20,840 companies don't contribute at all to the CSR. While some of these companies disclose losses, many of them are profitable and also qualify for CSR contributions and yet are not contributing to CSR. Even when we look at the data by development sectors, we can see that a sectors like clean ganga or slum development gets the lowest allocation while we have some of the corporates end up contributing to undefined projects.

While funding the social initiatives remains a major issue for a country like ours, CSR funding was one of the ways out for government to get the companies to contribute 2% of their pre tax profit to social initiatives, the data above suggests that the MCA would need to establish some internal thresholds within 2% overall contribution to ensure that the funds are made available to most impactful social projects and sectors. Also, the defaulting companies and their officers need to be penalised in order to ensure strict compliance to the companies act provisions.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (STATUTORY BODY UNDER AN ACT OF PARLIAMENT) TIME TABLE & PROGRAMME- DECEMBER 2023 FOUNDATION COURSE EXAMINATION (Multiple Choice Questions through offline OMR based from Centre)

Day & Date	Foundation Course Examination Syllabus-2016	
	Time 10.00 A.M. to 12.00 Noon. Paper - 1 & 2 (200 Marks)	Time 2.00 P.M. to 4.00 P.M. Paper - 3 & 4 (200 Marks)
Sunday, 17th December, 2023	Paper - 1 : Fundamentals of Economics & Management (100 Marks 50 Multiple Choice Questions)	Paper - 3 : Fundamentals of Laws & Ethics (100 Marks 50 Multiple Choice Questions)
	Paper - 2 : Fundamentals of Accounting (100 Marks 50 Multiple Choice Questions)	Paper - 4 : Fundamentals of Business Mathematics & Statistics (100 Marks 50 Multiple Choice Questions)
	Foundation Course Examination Syllabus-2022	
	Paper - 1 : Fundamentals of Business Laws and Business Communication (100 Marks 50 Multiple Choice Questions)	Paper - 3 : Fundamentals of Business Mathematics and Statistics (100 Marks 50 Multiple Choice Questions)
	Paper - 2 : Fundamentals of Financial and Cost Accounting (100 Marks 50 Multiple Choice Questions)	Paper - 4 : Fundamentals of Business Economics and Management (100 Marks 50 Multiple Choice Questions)